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Dear Neil,

Improved transparency of energy company profits

Whilst it is unusual for a statutory consultation to be published before a final decision on policy and implementation has been made, SSE welcomes the opportunity to comment on these proposals. As noted in our response to the October consultation, SSE continues to broadly support the key elements of Ofgem's work to improve the clarity of the CSS.

However, SSE is disappointed that Ofgem has not made further revisions to the proposed licence conditions and has instead chosen to retain SLC 19A.7. It is not clear what useful purpose SLC 19A.7 a) and b) are intended to serve that is not already an inevitable consequence of supporting the external audit required by SLC 19A.10. Furthermore, Ofgem has not provided a coherent rationale for requiring obligated parties to conduct an internal audit of transfer pricing process given that the key policy objective is more directly and transparently met by SLC 19A.10.

Similarly, the purpose of the requirement that companies "notify the Authority as soon as reasonably practicable of any material changes to transfer pricing policies" is not immediately apparent. As noted by one respondent to the previous consultation, the CSS itself offers the most coherent and accessible means of communicating such changes to all stakeholders.

The statutory consultation introduces a further measure through the revision of Appendix I of the guidelines – this now requires that "volume as purchased from the wholesale market" is disclosed in the CSS as well as metered volumes. If Ofgem's analysis suggests that this measure will address a particular issue, than SSE is happy to include these volumes. However it is worth noting that the total cost of the procured energy remains the same regardless of whether the volume is expressed before or after losses.

Given the range and scope of the various changes that have been made to the CSS since it was originally conceived, the publication of the decision on the current amendments would provide a good opportunity for Ofgem to clearly affirm the current policy objective of the CSS. It may also be helpful to clarify the roadmap for further anticipated developments in this area given Ofgem's concerns with the possible implications of the CMA market investigation.



Please do not hesitate to contact me if it would be helpful to discuss any of the points raised in this response in more detail.

Yours sincerely

(by email)

Roger Hutcheon

Regulation